



July 5th, 2012

Ms. Marlene H. Dortch
Secretary, Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: **Notice of Ex Parte Communication** in the Matter of WC Docket No. 10-90, 05-337.

Dear Ms. Dortch,

On June 27th, Juan Eugenio Rodríguez de Hostos, Chief Information Officer of Puerto Rico, Colleen Newman, of the Puerto Rico Federal Affairs Agency, and myself from Connected Nation, met with Julie Veach, Katie King, David Zesiger, Patrick Hailey, Carol Matthey and Steve Rosenberg of the Wireline Competition Bureau, and Chris Lewis of the Office of Legislative Affairs in order to present the Puerto Rico Broadband Strategic Plan,¹ recently released by the Puerto Rico Broadband Taskforce (www.prbroadband.org), and discuss the impact across Puerto Rico of proposed FCC reforms of the Connect America Fund (CAF).

The CIO of Puerto Rico reminded FCC executives that the digital divide across Puerto Rico is the most acute across the entire United States. The data speaks for itself:

- 14% of households across Puerto Rico, or approximately 176,000 households, remain unserved by any fixed broadband networks;
- 43% of households have no access to broadband at speeds greater than 6 Mbps;
- 69% of households across Puerto Rico did not subscribe to broadband in 2010;
- An estimated 443,000 children across Puerto Rico cannot enjoy the benefits of broadband in the home.

The CIO of Puerto Rico understands that universal access and use of broadband is an essential component for ensuring economic sustainability and competitiveness across the island. It is for this reason that the FCC's transition of the USF program to support broadband expansion and ensure the closing of the digital divide across the USA is perhaps no-where as important as in Puerto Rico.

¹ A copy of the Puerto Rico Broadband Strategic Plan was provided during the meeting and is available at <http://www.prbroadband.org/puerto-rico-broadband-strategic-plan/>. Other documents summarizing key highlights of the Puerto Rico Broadband Strategic Plan were provided during the meeting and are enclosed with this letter.

To ensure that Puerto Rico receives a fair allocation of subsidies through the Connect America Fund, based on its need and unique economic and structural factors, it is imperative that the FCC develops models to determine the allocation of CAF funds that are consistent with the economic, demand and cost, reality on the ground.

Echoing comments made in October of 2011 in this docket by Governor Luis G. Fortuño of Puerto Rico² and members of the Puerto Rico Broadband Taskforce,³ the CIO reiterated unique factors affecting private sector investment decisions and broadband expansion across the island. For example, across Puerto Rico, in 2010, an estimated 31% of households subscribed to broadband, compared to 67% across the USA. Furthermore, Puerto Rico faces unique high cost such as high backhaul or energy costs, which significantly impact the bottom line and broadband sustainability.

With an expected demand of less than half that across the USA and high operations costs that significantly erode margins, investors across Puerto Rico are faced with unique challenges to develop viable network investment opportunities. Unless the FCC incorporates into the models currently being developed to determine CAF Phase II funding levels factors such as expected low take rates and the ensuing low expected revenue from broadband investments, and backhaul, energy and other high-costs affecting the economics of broadband across the island, the people of Puerto Rico will not receive a fair share of these funds. As a result, the digital gap between Puerto Rico and the rest of the USA will not be closed and may even increase in the foreseeable future.

Recent FCC decisions for disbursement of the CAF Phase I funds do not set a good precedent in this regard. Based on the model used by the FCC to determine allocation of CAF Phase I funds, of this \$300 million one-time capital injection for broadband expansion, a total of \$0 were allocated to Puerto Rico.

Unless the FCC takes action to prevent a similar outcome under Phase II, Puerto Rico – the USA jurisdiction with the most acute digital divide- will be a net loser of funds under the Connect America Fund. If such scenario were to take place, we will have failed in the stated purpose of the Connect America Fund to “help make broadband available to homes, businesses, and community anchor institutions in areas that do not, or would not otherwise, have broadband.”⁴

² Letter from Governor Luis G. Fortuño of Puerto Rico to the FCC, October 17th, 2011. Available at <http://apps.fcc.gov/ecfs/document/view?id=7021714840>

³ Letter from Members of the Puerto Rico Broadband Taskforce to the FCC, Submitted October 21, 2011, by the Puerto Rico Internet Society.

⁴ *Connect America Fund*, WC Docket No. 10-90, et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011).



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In order to ensure that the stated goals of the Connect America Fund are met, the CIO of Puerto Rico extended during the meeting a collaborative hand to the Wireline Bureau as it defines key principles for the CAF Phase II model and works to collect necessary data to implement that model.

Sincerely,

s/

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